1 2 3 UNITED STATES DISTRICT COURT 4 WESTERN DISTRICT OF WASHINGTON 5 AT TACOMA COMMERCIAL DEVELOPMENT 6 COMPANY, a Missouri corporation; **ENVIRONMENTAL LIABILITY** 7 TRANSFER INC., a Missouri corporation; and Case No. C07-5172RJB WASH PAPER LLC, a Missouri Washington 8 limited liability company as assign, **ORDER** 9 Plaintiffs. 10 v. 11 ABITIBI-CONSOLIDATED INC., a foreign corporation, JOHN DOES 1-10, officers 12 directors, agents or employees of ABITIBI-CONSOLIDATED, INC., individually and 13 their martial communities composed thereof, 14 Defendants, 15 VANESSA HERZOG, individually and her 16 marital community, 17 Intervenor Plaintiff, v. 18 COMMERCIAL DEVELOPMENT 19 COMPANY, a Missouri corporation; ENVIRONMENTAL LIABILITY 20 TRANSFER INC., a Missouri corporation; and WASH PAPER LLC, a Missouri Washington 21 limited liability company as assign, 22 Defendants in Intervention. 23 This matter comes before the Court on Vanessa A. Herzog and her marital community's 24 Motion to Disqualify Foster Pepper as Counsel for Plaintiffs and For Sanctions. Dkt. 41. The Court 25 26 ORDER - 1

has considered the pleadings filed in support of and in opposition to the motion and the file herein.

Defendant Abitibi's Motion for Partial Summary Judgment for Dismissal of Plaintiffs' Third Cause of Action (Dkt. 35) is also pending.

I. <u>FACTS AND PROCEDURAL BACKGROUND</u>

Plaintiffs originally filed this action on March 21, 2007, in Pierce County, Washington Superior Court, alleging Defendants wrongfully refused to sell Plaintiffs commercial real property located in Steilacoom, Washington. Dkt. 2-3. The subject property is approximately 83 acres and was a former paper mill site. *Id.* Plaintiffs filed a Notice of Lis Pendens in Pierce County Superior Court and recorded the Notice of Lis Pendens in the county real property records on March 23, 2007. Dkt. 1-2, at 8-15. On April 4, 2007, Abitibi-Consolidated Inc. ("Abitibi") removed the case to this Court. Dkts. 1 and 2.

The First Amended Complaint alleges that in the spring of 2006, Abitibi, through its real estate agent Vanessa Herzog (the moving party here), listed the subject property for sale. Dkt. 25, at 2. Plaintiffs allege that on June 1, 2006, as a result of "substantial negotiations" Plaintiffs submitted an executed Letter of Intent to Abitibi. *Id.* at 7. Plaintiffs allege that the Letter of Intent was "legally binding upon Purchaser and Seller subject only to negotiation and execution of a mutually acceptable Purchase and Sale Agreement." *Id.* at 9. Plaintiffs allege that they were "formally notified of [Plaintiff Environmental Liability Transfer's] selection as the purchaser of the property by the agent of [Abitibi], Ms. Herzog, by email dated July 27, 2006." *Id.* at 8. Plaintiffs' allege that the email states: "Environmental Liability Transfer, Inc. has been selected as the purchaser for the Abitibi property. The purchase price is \$4,000,000. I will be forwarding the signed letter of intent and purchase and sale agreement shortly." *Id.* Plaintiffs allege that despite spending substantial sums on due diligence and acting with good faith to complete the transaction, on February 16, 2007, Defendants demanded additional compensation for the property. *Id.* at 9-10. Plaintiffs allege that they recently discovered that Abitibi and "John Does were showing the property to prospective

purchasers and were in the process of negotiating a new agreement with another prospective
purchaser for \$5,000,000." *Id.* at 10. Plaintiffs make claims for breach of contract, promissory
estoppel, violations of the Abitibi Code of Ethics and Principles of Ethical Behavior pursuant to
Sarbanes Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745, violations of the implied covenants
of good faith and fair dealing, and violations of the Washington State Consumer Protection Act,
RCW 19.86. Dkt. 25, at 11-13. Plaintiffs seek injunctive relief, specific performance of the real
estate contract, and monetary damages. *Id.* at 13-14.

On October 1, 2007, Vanessa A, Herzog and her marital community's ("Herzog") Motion

On October 1, 2007, Vanessa A. Herzog and her marital community's ("Herzog") Motion to Intervene was granted. Dkt. 37. According to Herzog, her principal reason for seeking to intervene was to defend herself and her marital community from any potential liability stemming from the allegations in the First Amended Complaint that involve her. Dkt. 34. For example, the First Amended Complaint alleges that Plaintiff was "formally notified of its selection as the purchaser of the property by the agent of [Abitibi], Ms. Herzog, by email dated July 27, 2006." Dkt. 25 at 8. Herzog denies that this was the purpose of the email and seeks declaratory relief that her conduct did not and cannot create any liability for herself and Abitibi. Dkt. 32, at 3. On October 3, 2007, Herzog filed a Complaint in Intervention. Dkt. 38. She makes three claims. Id. First, she seeks a judicial declaration that "the conduct on the part of Ms. Herzog relied on by [Plaintiffs] cannot, as a matter of law, create any liability on legal or equitable grounds for Ms. Herzog, GVA Kidder Mathews or [Abitibi]" to Plaintiffs. *Id.*, at 2-3. Secondly, she makes a claim for tortuous interference, alleging that Plaintiffs here have "wrongfully and tortuously interfered with the sale of the property to third parties causing damages to Ms. Herzog in an amount which will be proven with specificity at trial." *Id.* at 3. Lastly, Herzog makes a claim for damages and attorneys fees under RCW 4.28.328. Id.

Herzog and her marital community are represented by Herzog's husband, Paul Brain.

Herzog is a real estate agent with GVA Kidder Mathews ("Kidder"), and was Abitibi's agent in the ORDER - 3

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transaction at issue. Dkt. 32, at 1. Herzog is a Senior Vice President and shareholder of Kidder. Dkt. 43, at 2. Linn Larsen, also an agent at Kidder, was Plaintiffs' agent in the transaction at issue here. Dkt. 51, at 4. Herzog states that when she began working at Kidder, she was informed that "legal representation in relation to [her] activities as a Kidder agent would be provided by Chris Osborn." Dkt. 43, at 2. Chris Osborn is an attorney at Foster Pepper PLLC, and acts as lead counsel to Kidder on various legal matters. Dkt. 49. Foster Pepper PLLC represents Plaintiffs here.

Herzog states that she has had a number of contacts with Mr. Osborn on legal issues that arose as part of her provision of brokerage services to Kidder clients. Dkt. 43, at 2. She states that she "understood that Mr. Osborn was representing [her] individually." Dkt. 56, at 2. She states that she had has given him information which was communicated in confidence. *Id.* Herzog states that some of the confidential information and advice bears directly on the issues in this litigation. *Id.* Herzog indicates that Mr. Osborn did not tell her that his representation was limited to Kidder. *Id.* She indicates that pursuant to Kidder's "Policy Manual," as it pertains to commission issues, "legal fees accrued in the collection of fees shall be shared by [Kidder] and the agent in the same proportion as the commission is shared." Id. at 3. Herzog states that under the "Policy Manual" she is responsible for payment of the \$25,000 deductible which is applied to the attorneys fees incurred in defending a claim against her arising from the provision of brokerage services. *Id.* She states that she has personally paid for all the legal services provided to her by Mr. Osborn and Foster Pepper. *Id.* Herzog expresses great concern over the fact that Plaintiff's first interrogatory responses indicated that she was one of the "John Doe Defendants" against whom Plaintiff was asserting a claim for a million dollars, although a second set of responses removes her name. Dkt. 41. Foster Pepper sent an apology for including her name on the responses. Dkt. 49, at 2-3.

Mr. Osborn states that he investigated whether his firm should accept representation of Plaintiffs here. Dkt. 49. He understood that "notwithstanding the dispute between the buyer and seller, there was no assertion that [Kidder] or its agents had done anything wrong and [he] could

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discern no potential claim from the facts relayed to [him]." *Id.*, at 2. He states that he represents Kidder, and in that capacity has advised most, if not all, of Kidder's employees and agents, such as Herzog, who is an independent contractor. *Id.*, at 3. He states that the only advice he has ever given Herzog was in her "capacity as an agent/independent contractor for [Kidder] on matters that are unrelated to the subject matter of this litigation." *Id.* He does not believe that he represents her personally, and does not believe that he possesses confidential information which is material to the present suit. *Id.* at 4.

Paul Brain filed a Declaration in support of the instant Motion to Disqualify. Dkt. 42. He states that "to his knowledge" Mr. Osborn has "represented and advised Ms. Herzog on issues pertaining specifically to the scope of her duties and responsibilities as a seller's agent" Dkt. 42, at 4 (*emphasis added*). Brain states that he recalls sitting in on a number of telephone conversations where Mr. Osborn was "advising Ms. Herzog on commission issues" . . . and attended a meeting addressing a purchaser's allegations that "communications by Ms. Herzog created an obligation to sell on the part of her customer." *Id*.

In the instant motion to disqualify counsel, Herzog argues that: 1) she is a current client or was a client of Mr. Osborn, and, therefore, of Foster Pepper, 2) Foster Pepper's representation of Plaintiffs violates the Washington Rules of Professional Conduct governing actual and potential conflicts of interests, 3) sanctions should be imposed on Foster Pepper or the individual attorneys involved, and 4) sanctions should be awarded under Fed. R. Civ. P. 26 against Mr. Mullaney for serving the Interrogatory Responses which mistakenly included Herzog. Dkt. 41.

Plaintiffs argue in Response to this motion to disqualify their counsel that when they first approached Mr. Thoreson of Foster Pepper to represent them, they did not believe that they had any claims against Kidder or its' agents. Dkt. 48, at 3. Foster Pepper argues that Plaintiffs waived any potential conflict. Dkt. 48, at 3. They point to the letter in the record entitled "Waiver of Potential Conflict in Abitibi Matter" signed by Plaintiffs here. Dkt. 50, at 41-44. Foster Pepper also states that

they anticipate Kidder will execute the waiver letter sent it in the near future. Dkt. 49, at 2.

Moreover, they argue that 1) Herzog is not a client of Foster Pepper or Mr. Osborn, 2) Mr. Osborn represents Kidder as an organization, but does not represent her, a constituent, under RPC 1.13, even if he is in possession of confidential information, 3) Herzog fails to meet Washington's two-pronged requirements for disqualification, and 4) Herzog's request for personal sanctions against Mr. Mullaney should be denied. Dkt. 48.

II. <u>DISCUSSION</u>

A. MOTION TO DISQUALIFY

The Court first refers to the local rules regulating the conduct of members of its bar in determining whether an attorney's representation of a particular client violates the attorney's ethical responsibilities. *Paul E. Iacono Structural Engineer, Inc. v. Humphrey,* 722 F.2d 435, 439 (9th Cir. 1983); *Avocent Redmond Corp. v. Rose Electronics,* 491 F. Supp. 2d 1000 (W.D.Wash. 2007). Local General Rule 2(e), "Standards of Professional Conduct," provides that:

In order to maintain the effective administration of justice and the integrity of the Court, attorneys appearing in this District shall be familiar with and comply with the following materials ("Materials") (1) The Local Rules of this District, including the Local Rules that address attorney conduct and discipline; (2) the Washington Rules of Professional Conduct, as promulgated, amended and interpreted by the Washington State Supreme Court (the "RPC"), and the decisions of any court applicable thereto; ... In applying and construing these Materials, this Court may also consider the published decisions and formal and informal ethics opinions of the Washington State Bar Association, the Model Rules of Professional Conduct of the American Bar Association and Ethics Opinions issued pursuant to those Model Rules, and the decisional law of the state and federal courts.

Herzog argues here that she is, or at least was, a client of Mr. Osborn and Foster Pepper, and that Foster Pepper's representation of Plaintiffs here violates RPC 1.7 and RPC 1.10. Dkts. 41, and 54. The first issue that must be addressed is whether Herzog is a current or former client of Foster Pepper.

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1. Herzog as a Client

In the state of Washington, "[t]he essence of the attorney/client relationship is whether the attorney's advice or assistance is sought and received on legal matters." *In re Disciplinary*Proceeding Against Egger, 152 Wash. 2d 393, 410 (2004) (citing Bohn v. Cody, 119 Wash. 2d 357 (1992)). The relationship need not be formalized in a written contract; rather it may be implied from the parties' conduct. *Id.* "Whether a fee is paid is not dispositive, for the existence of the relationship turns largely on the client's subjective belief that it exists." *Id.* "The client's subjective belief, however, does not control the issue unless it is reasonably formed based on the attending circumstances, including the attorney's words or actions." *Bohn*, at 363.

Herzog is, at least, a former client of Chris Osborn and Foster Pepper. She sought and received legal advice from Mr. Osborn on issues at least indirectly related by subject matter to this litigation. Dkts. 43, at 2 and 56, at 2. She clearly thinks that she was represented by Mr. Osborn and Foster Pepper, and personally paid for their services, even though Mr. Osborn may have been unaware of the source of his fees. Dkts. 43, at 2 and 56, at 3. Her belief that she is represented by Mr. Osborn is reasonable in the circumstances.

Although Herzog is a Senior Vice President and shareholder of Kidder, (and so a constituent under Comment One to RPC 1.13), parties are quick to point out that she is not an employee, but an independent contractor. Dkts. 43, at 2 and 49, at 3. Her status as an officer and owner of Kidder leaves open the question of her current relationship with Foster Pepper, which continues to represent Kidder.

Mr. Osborn argues that he does not represent Herzog personally, but represents Kidder as a organization, citing RPC 1.13. Under RPC 1.13(a), "[a] lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents." While recognizing that under certain circumstances a lawyer who represents an organization does not represent the directors, officers, employees, members, shareholders or other constituents of that

organization individually, subject to the provisions of RPC 1.7 (governing conflicts of interest), RPC 1.13(g) does not prohibit dual representation. Moreover, the circumstances here lead to the conclusion that Mr. Osborn did, in fact represent Herzog as well as Kidder, and may continue to be Herzog's lawyer, through Kidder, for some matters.

2. <u>Washington Rule of Professional Conduct 1.7</u>

RPC 1.7 provides that:

- (a) A lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if: (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.
- (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing (following authorization from the other client to make any required disclosures).

Under RPC 1.10(a), "while lawyers are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by Rules 1.7 or 1.9, unless the prohibition is based on a personal interest of the prohibited lawyer and does not present a significant risk of materially limiting the representation of the client by the remaining lawyers in the firm." Disqualification prescribed by RPC 1.10 (a) may be waived by the affected client under the conditions stated in Rule 1.7. RPC 1.10 (c).

a. Existence of Concurrent Conflict of Interest

There is a concurrent conflict of interest in Foster Pepper's representation of Plaintiffs here, and it's representation of Kidder and Herzog. Herzog is suing the Plaintiff here for declaratory relief: "the conduct on the part of Ms. Herzog relied on by [Plaintiffs] cannot, as a matter of law, create any liability on legal or equitable grounds for Ms. Herzog, [Kidder] or [Abitibi]" to Plaintiffs.

Dkt. 38, at 2-3. Secondly, she makes a claim for tortuous interference, alleging that Plaintiffs here have "wrongfully and tortuously interfered with the sale of the property to third parties causing damages to Ms. Herzog in an amount which will be proven with specificity at trial." *Id.* at 3. Lastly, Herzog makes a claim for damages and attorneys fees under RCW 4.28.328. *Id.* Although there is no evidence in the record of the current commission sharing agreement between Kidder and Herzog, surely Kidder would benefit from Herzog's success in her case. It is, then, to one of Foster Pepper's client's (Plaintiffs') benefit to beat Herzog on her claims, and to the other Foster Pepper's client's (Kidder's) benefit if Herzog is successful. Accordingly, the representation of one client would be directly adverse to the interests of the other. Moreover, Mr. Osborn assured Herzog that if Plaintiffs here decided to assert a claim against Kidder or any of its agents relating to this transaction, Foster Pepper would withdraw from the case. Dkt. 42, at 8. Now that Herzog is asserting a claims against Plaintiffs, the same reasoning should have applied. A concurrent conflict of interest exists.

b. Waiver

Foster Pepper argues that even if a conflict of interest exists, that the clients have signed waivers. The record indicates that two of the three clients involved did not in fact sign waivers. Herzog has not signed a waiver. The waiver in the record from Kidder is for discovery conflicts. Dkt. 49, at 6. Not all of the clients have given their informed consent as is required under RPC 1.7(b).

3. *Kurbitz* Factors

Foster Pepper argues that Herzog fails to meet Washington's two pronged requirements for disqualification citing *Kurbitz v. Kurbitz*, 77 Wn.2d 943, 947 (1970) and *RWR Management Inc. v. Citizens Realty Company*, 133 Wn.App. 265 (2006). Dkt. 48, at 10. On the outset, it is unclear how the current Rules of Professional Conduct relate to the rule announced in these cases. The current version of RPC 1.7 became effective on September 1, 2006, after the decision in *RWR Management*. In any event, the Washington Supreme Court in *Kurbitz* in 1970 and Division III of

the Washington Court of Appeals in *RWR Management* in 2006, held that Washington courts consider two factors in attorney disqualification questions arising from alleged conflict of interest. First, courts consider if "the matters embraced within the pending suit involving an attorney's former client are substantially related to matters on which the attorney or someone in his association previously represented the former client." *RWR Management*, at 280 (*citing Kurbitz* at 947). Second, courts consider "if the attorney in the present litigation did not formerly represent the adverse client, but had access to confidential information which is material to the present suit, then the attorney should disqualify himself." *Id*.

Assuming this test still applies, Herzog has met the requirements. Even if she is considered a former client, she has sufficiently alleged that matters embraced within this case are substantially related by subject matter to issues on which Mr. Osborn has given her advice, meeting the first prong of the test. According to the parties, one of the issues in this matter will be the consequences of Herzog's actions, as an agent, on Abitibi. Herzog states that she has consulted Mr. Osborn "on a number of issues including issues relating to the scope of her duties and responsibilities as an agent." Dkt. 56, at 2. Secondly, she alleges that Mr. Osborn has access to confidential information which is material to the present suit, meeting the last prong of the test. *Id.* Herzog has successfully met the requirements of the test announced in *Kurbitz v. Kurbitz*, 77 Wn.2d 943, 947 (1970).

3. <u>Conclusion</u>

The Motion for the Disqualification of Plaintiffs' counsel should be granted. Unless compelling circumstances are presented, a corporation must be represented by an attorney in federal court. *See In re Highley*, 459 F.2d 554, 555-56 (9th Cir.1972); *Taylor v. Knapp*, 871 F.2d 803, 806 (9th Cir.1989); *Shell Petroleum v. Graves*, 709 F.2d 593, 594 (9th Cir.1983); *Rowland v. California Men's Colony*, 506 U.S. 194, 202 (1993). Accordingly, Plaintiffs should be given thirty days to find a new attorney.

B. MOTIONS FOR SANCTIONS

1. Failure to Voluntarily Withdraw

Herzog moves for monetary sanctions against Foster Pepper and the members of that firm for failing to voluntarily withdraw from their representation of Plaintiffs. Dkt. 41. Local General Rule 2(f)(3)(A) provides that an attorney may be subject to disciplinary action for violations of the Standards of Professional Conduct. As side from directing Foster Pepper to withdraw as Plaintiffs' counsel, this Court will take no further disciplinary action against Foster Pepper or any of the individual lawyers involved. The record does not support the award of monetary sanctions and Herzog's motion should be denied.

2. <u>Sanctions Regarding Answers to Interrogatories</u>

Herzog, for the second time, moves for sanctions against Mr. Mullaney at Foster Pepper.

Dkts. 34 and 41. She alleges that the first set of Interrogatory Responses which named her as a "John Doe Defendant" was certified by Mr. Mullaney to be in compliance with Fed. R. Civ. P. 26(g).

Id. Although Herzog acknowledges that after pointing out that she was included as a "John Doe Defendant" Plaintiffs' counsel amended the answer and removed her name, she still argues that she is entitled to sanctions. Id. at 3-4.

Fed. R. Civ. P. 26(g)(1) provides that every disclosure made pursuant to Fed. R. Civ. P. 26 made by a party represented by an attorney shall be signed by at least one attorney of record" and that signature "constitutes a certification that to the best of the signer's knowledge, information, and belief, formed after reasonable inquiry, the disclosure is complete and correct as of the time it is made." "If without substantial justification a certification is made in violation of the rule, the court . . . shall impose upon the person making the certification . . . an appropriate sanction."

Here, no sanction is warranted, and Herzog's motion for sanctions should be denied. The record indicates that Herzog's name was inadvertently included in the answers to interrogatories and once discovered, Foster Pepper amended the answers and apologized. The answer in question was

intended to explain Plaintiffs' theory of the case, and did not appear to have an improper purpose. No further action is required.

C. MOTION FOR SUMMARY JUDGMENT

Defendant Abitibi's Motion for Partial Summary Judgment for Dismissal of Plaintiffs' Third Cause of Action (Dkt. 35) should be re-noted to January 4, 2008 in order to give Plaintiffs' new counsel an opportunity to file a supplemental pleadings, if they wish. An additional response, if any, should be filed by December 31, 2007, and an additional reply, if any, should be filed by January 3, 2008.

D. CIVILITY

Remaining parties are again warned to conduct themselves according to the highest professional standards. Name calling will not be tolerated. Additionally, based on the pleadings submitted by Brain (Herzog's lawyer and husband), it is unclear whether Brain will be a witness in this case. Equally unclear are the implications of RPC 3.7 on his representation of her. As should now be apparent, the Rules of Professional Conduct apply.

E. JURISDICTION

The Court again notes that, at this stage, it appears the Court has a basis for diversity jurisdiction pursuant to 28 U.S.C. § 1332. However, the Court notes that the caption in the First Amended Complaint lists Plaintiff Wash Paper LLC as a "Missouri Washington limited liability company," the Notice of Removal alleges that Wash Paper LLC is a Missouri corporation. Plaintiffs should clarify this issue for the Court and move to amend the First Amended Complaint if necessary. Trial is set to begin in the end of May 2008.

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III. 1 **ORDER** 2 Therefore, it is hereby **ORDERED**, that: Intervenors' Motion to Disqualify Foster Pepper as Counsel for Plaintiffs and for 3 Sanctions (Dkt. 41) is **GRANTED**, as to the disqualification of Foster Pepper as 4 Counsel for Plaintiffs, and **DENIED**, as to the Motions for Sanctions; 5 Plaintiffs have thirty days from the date of this order to find new counsel; 6 7 Defendant Abitibi's Motion for Partial Summary Judgment for Dismissal of Plaintiffs' 8 Third Cause of Action (Dkt. 35) is **RE-NOTED** to **January 4, 2008**. An additional 9 response, if any, shall be filed by December 31, 2007, and an additional reply, if any, shall be filed by January 3, 2008; 10 The Clerk of the Court is instructed to send uncertified copies of this Order to all 11 counsel of record and to any party appearing pro se at said party's last known 12 13 address. DATED this 15th day of November, 2007. 14 15 16 17 United States District Judge 18 19 20 21 22 23 24 25